

Message Text

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21

ACTION NEA-10

INFO OCT-01 EUR-12 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 IO-13 L-03 H-02 PA-02 PRS-01 /133 W

----- 072096

R 011128Z DEC 76

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8894

INFO AMEMBASSY DACCA

AMEMBASSY LONDON

AMEMBASSY MANILA

USMISSION OECD PARIS

UNCLAS ISLAMABAD 12431

E.O. 11652 : N/A

EFIN, PK, BD

UK-PAKISTAN DEBT RELIEF AGREEMENT

MANILA FOR USADB

1. THE GOVERNMENT OF PAKISTAN HAS ANNOUNCED THAT PAKISTAN AND THE UK SIGNED A DEBT RELIEF AGREEMENT IN ISLAMABAD ON NOVEMBER 27. THE AGREEMENT, WHICH WAS IN IMPLEMENTATION OF THE 1974 MEMORANDUM OF UNDERSTANDING BETWEEN PAKISTAN AND THE CONSORTIUM COUNTRIES, RELIEVED PAKISTAN OF ALL DEBT SERVICE PAYMENTS DUE ON BRITISH DEVELOPMENT CREDITS PAYABLE BETWEEN JULY 1, 1974 AND JUNE 30, 1976, AND PROVIDED ADDITIONAL DEBT RELIEF DURING FY 1977 AND 1978. ALL THE DEBT RELIEF WAS PROVIDED AS OUTRIGHT GRANT. THE TOTAL AMOUNT OF DEBT RELIEF PROVIDED WAS £24.438 MILLION. AT THE SAME TIME, THE BRITISH GOVERNMENT RELIEVED PAKISTAN OF LIABILITY FOR £28 MILLION IN AID AND GOVERNMENT-GURANTEED COMMERCIAL DEBT INCURRED FOR PROJECTS VISIBLY LOCATED IN BANGLADESH, EFFECTIVE JULY 1, 1974.

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WM THE GOP ANNOUNCEMENT GAVE THE DOLLAR VALUE OF THE DEBT TRANSFERRED TO BANGLADESH AS DOLS66.9 MILLION, AND THAT OF DEBT PAYMENTS NOW FORGIVEN AS DOLS58.3 MILLIO. THIS FIGURE WAS ARRIVED AT BY USING THE DOLS.2.389 ; L1 EXCHANGE RATE WHICH HAD BEEN USED IN CALCULATING RESCHEDULING SHARES IN THE 1974 MEMORANDUM OF UNDERSTANDING. THE BRITISH EMBASSY HERE HAS CONFIRMED THAT PAKISTAN DEBT TO THE UK IS DENOMINATED IN POUNDS, THAT THE DOLLAR VALUE OF THE DEBT RELIEF PROVIDED AT CURRENT EXCHANGE RATES IS OF COURSE SUBSTANTIALLY LOWER.

3. BRITISH ECONOMIC COUNSELOR EXPLAINED THAT THE UK HAD DECIDED TO PROVIDE ITS DEBT RELIEF AS AN OUTRIGHT GRANT, RATHER THAN RESCHEDULING OVER 0 30 YEARS AS OTHER CONSORTIUM MEMBERS ARE DOING, IN ORDER TO MAKE THE TERMS OF THIS DEBT RELIEF COMPARABLE WITH PRESENT BRITISH AID TERMS (PRESENTLY ALL GRANT IN PAKISTAN). IN ADDITION, HMG APPARENTLY ALSO FELT THAT IT WOULD BE BETTER PLACED TO INSIST THAT COMMERCIAL DEBTS TO BRITISH ENTITIES BE PROMPTLY PAID IF BRITISH RESCHEDULING TERMS WERE MORE GENEROUS THAN THE MINIMUM REQUIRED BY THE 1974 AGREEMENT.

4. WITH THE BRITISH AGREEMENT NOW SIGNED, ALL THE CONSORTIUM COUNTRIES HAVE NOW IMPLEMENTED THE 1974 MEMORANDUM OF UNDERSTANDING.
BYROADE

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DEBT AGREEMENTS, DEBT REPAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ISLAMA12431
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760445-0995
From: ISLAMABAD
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761284/aaaacuoh.tel
Line Count: 85
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: wolfsd
Review Comment: n/a
Review Content Flags:
Review Date: 25 MAY 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 MAY 2004 by hattaycs>; APPROVED <11 AUG 2004 by wolfsd>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: EFIN, PK, BG, UK, FR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006